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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 002489

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DEPARTMENT FOR EUR/NCE MICHELLE LABONTE, PLEASE PASS TO NSC
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SUBJECT: FAMILY FEUD: COALITION DEADLOCKED IN BUDAPEST

REF: BUDAPEST 2004

Classified By: POL/C ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

11. (C) Ambassador Foley met with Budapest Mayor Gabor Demszky December 6 as Demszky's SZDSZ party remained deadlocked with coalition partner MSZP over the appointment of the municipal leadership. The conflict comes as the coalition clings to a one-vote majority in the municipal assembly following what one SZDSZ official described as "stunning" setbacks in the October local elections. The tension has been further heightened by Mayor Demszky's very public refusal to accept the MSZP's Erzsebet Nemeth as one of his Deputy Mayors, and the MSZP's counter that they will nominate a person from "other parties" if Demszky does not relent (NOTE: Building on Demszky's promise to accept "anyone but Nemeth," MSZP sources have been quoted in the press saying they will nominate a person from a third party if Demszky refuses the Nemeth nomination).

DYSFUNCTION JUNCTION?

12. (C) Although Demszky has maintained that his opposition is rooted in Nemeth's refusal to accept responsibility for supervising health care issues and her "confrontational" nature (an opinion the majority of the MSZP representatives on the city council reportedly share behind closed doors), talk around town suggests that Demszky's position is also driven by his personal conflict with Andras Bohm, an SZDSZ official romantically involved with Nemeth. He told the Ambassador explicitly that he had long warned the MSZP that he would not work with Nemeth and indicated that he is even ready to give the MSZP more positions in return for its withdrawal of her nomination. His adamant position, he continued, may be contrary to "political correctness" but remains "fully within my rights." He noted pointedly that "PM Gyurcsany should understand," as Gyurcsany had similarly rejected Demszky's close friend Balint Magyar as Minister of Education.

13. (C) After weeks of downplaying the deadlock, party officials are now conceding that "there is no dysfunction yet ... but it is on the horizon." With the media observing that the dispute is "no longer a local affair," PM Gyurcsany continues to publicly urge the SZDSZ to accept Nemeth. Demszky noted to the Ambassador that "this has been the worst press I've gotten in years," thanks to the "MSZP's influence over the media," but reiterated that he is "willing to pay the price for my veto" and concluded that there is "light at the end of the tunnel."

FIDESZ WAITING IN THE WINGS?

14. (C) With complaints about the city, and particularly its long-time mass transit problems, as constant background noise, this latest rift has made the five-time mayor look

petty to supporters and vulnerable to opponents. His strong support of Budapest Police Commissioner Gergenyei - in the face of strong criticism from the opposition - has also helped keep the story of the October violence in the news. We note that all of the applicants interviewed for our recent LES vacancy in the Political Section - all young, professional Budapest natives who had grown up during Demszky's tenure - were uniformly cynical regarding the Mayor, often taking municipal corruption for granted.

15. (C) Political scientist Zoltan Kiszelly predicts that the race to succeed Demszky - and to control the city's estimated 3,000 patronage positions - is already on. He believes the real competition is within FIDESZ. Several of the party's most promising younger members, including Zoltan Pokorni, Antal Rogan, and Tamas Gabor Nagy are now district mayors in Budapest and are reportedly angling for the party's nomination in the next election.

TROUBLE IN PARADISE?

16. (C) Though certainly compounded by the personalities involved, the clash in Budapest could be a symptom of broader troubles within the governing coalition. The SZDSZ emerged as the clear loser of the October local elections (reftel), and both party insiders and outside observers believe the party paid heavily for its dogged loyalty to the coalition with the MSZP despite the fallout from the "Gyurcsany tape." Indeed, some joke that "the SZDSZ died for Gyurcsany's sins."

17. (C) Last rites may be premature, but retirements are not. Demszky has stated that he will not run for another term, and Party President Gabor Kuncze will step down from his leadership position in the Spring. The succession battle for

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the party leadership will likely pit Minister of Economy Janos Koka against MP Gabor Fodor. Koka, personally close to Gyurcsany and already responsible for a host of high-profile issues including energy, may have difficulty taking on yet another task. Fodor recently told poloff that within the party he is "stronger now than in the past" but has not yet decided whether or not to seek the position. By his demeanor Fodor was clear that there is little love between him and Koka. Demszky (among others) believes Koka's reputation as a "liberal ... but not socially sensitive millionaire" will be a disadvantage in the race, and former PM Medgyessey believes Koka is "still five years away from being ready for the job."

Fodor, a founding FIDESZ member (and one-time room-mate of Viktor Orban) who later broke with the party over its move to the right in the 1990s, is seen as an intellectual lacking the strong connection to the party's liberal economic tradition. Nonetheless, diverse observers including Demszky and Orban like his chances as he is moving to the center and less associated with the party's "nomenklatura." Most observers see the race as too close to call at this point, although Labor Minister Kiss spoke for many in commenting that "neither Koka nor Fodor is Kuncze's equal." Kiss suggested that the two rivals should divide responsibility as party and parliamentary faction leader in order to avoid a drawn-out struggle.

YOU ONLY HURT THE ONES YOU LOVE

18. (C) Such a struggle could hurt the MSZP as well. SZDSZ officials have been critical of some elements of the government's agenda, and Koka recently became the first minister in Hungary's recent history not to support the government's position when he voted against a measure to revise pension regulations. Current polling projects the SZDSZ as unable to meet the 5% threshold required for representation in Parliament in the next elections, and as the competition within the SZDSZ increases the candidates will be tempted to distance themselves not only from each other but also from the MSZP. Many in the SZDSZ feel taken for granted by the Gyurcsany government, and careless talk

from MSZP officials about pursuing the center-right MDF as its new coalition partner have only exacerbated the situation.

¶9. (C) Demszky believes the "strange" but long-standing coalition between the SZDSZ and the MSZP will remain a "fixed point" in Hungary's political constellation, provided the Gyurcsany government maintains its commitment to reform. Even then, there will be differences of opinion. Demszky cautioned that the government will have to pay careful attention to "consequence management" as it moves forward on austerity measures in order to prevent "the people - and not just the hooligans" from "taking to the streets." He also suggested that a majority of the party's members would look toward a centrist political alliance with a "moderate, responsible conservative party like the MDF" given their common anti-communist traditions.

¶10. (C) Comment: Although Kuncze tells us privately that he believes a face-saving compromise is possible, resolving the present impasse in Budapest will not solve the SZDSZ's longer-term dilemma. With its traditional agenda largely expropriated by Gyurcsany, it is now facing a cycle of decline and - they hope - renewal that has been a feature of Hungarian political culture. The MSZP and the MDF have been through similar periods, and many expect FIDESZ to confront a similar tipping point. But with its last stronghold in Budapest reduced to the narrowest of margins and its two most visible leaders planning to step down, it appears to be the SZDSZ's turn to remake itself ... or face the consequences.
End Comment.
FOLEY